ELK HORN BANK & Trust Co.
MEMBER FDIC

June 9, 2005

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Mr. Robert E. Feldman, Executive Secretary
ATTN: Comments, Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

RE: Classification of Commercial Credit Exposure, FIL-22-2005

Dear Mr. Feldman:

I wanted to take the opportunity to comment on the proposed rule changes relating to classification of various types of commercial loans from the methodology that community banks have traditionally used to the new system that apparently arises from the Basel II Treaty that was intended to only affect very large banks Elk Horn Bank strongly opposes this reclassification as unnecessary, burdensome and likely to result in less protection from a credit downturn than under the current system used. Since community banks are more susceptible to a deterioration in earning when one or two large credits become non-accrual or cause loss, the system that we have currently used offers more protection, not less

Most all community banks use a classification system of seven to ten categories which are based on a routine and careful consideration of each loan. There is cushion built into the classification for one of these large credits causing undue damage to the institution due to having some extra loan loss reserve However, this is not a system that is designed for tax protection, as we community bankers are striving for our financials to look as good as large regional and national banks

Even though the Basel II accord was never intended to affect small banking systems such as our $170 million institution, our external auditing firm is now using the methodologies employed in Basel II and advising us to change our rating system as suggested by the recent proposed regulatory change

At any rate, there will be significant cost of the change born by an over-burdened community banking system, which is trying to compete with many non-banks for a huge percentage of the income we actually earn. Community bankers simply cannot afford to create the validating processes which are suggested, when we have a system that has and continues to serve us well. A full fledge validation process for our commercial credit facilities include:

- Developmental evidence
- Process review
- Data and quantification
- Documentation and oversight
- Benchmarking
- Backtesting

Most community banks already pay for internal and external audits as well as internal and external loan review. This new regulation would surely require us to hire outside experts to create and monitor the validation process in addition to continuing the loan review function which has been both successful and adequate.

We are asking to avoid the risk, cost and burden that the implementation of a change in the rating system will likely cause.

Best personal regards.

Sincerely,

ELK HORN BANK & TRUST CO.

Bill Wright

William G Wright, President and CEO

WGW/dhc